



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: February 3, 2017

TO: House and Senate Tax Members
House Appropriations Members
Senate Finance and Claims Members

FROM: LFD Revenue Team

RE: FY 2017 General Fund Revenue Update #2

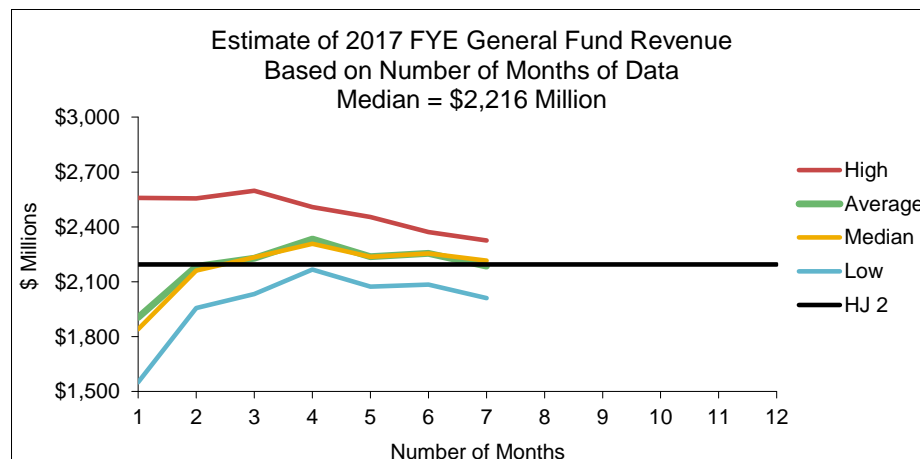
GENERAL FUND REVENUE SUMMARY

This is the second of six monthly revenue updates throughout the second half of FY 2017 designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends and the outlook for FY 2017 relative to the revenue estimate contained in HJ 2.

FY 2017 general fund revenues through the end of January are \$9.1 million or 0.7% higher than FY 2016 revenues through the same period; this increase is below the anticipated growth of 3.4%. Note that early YTD comparisons to FY 2016 will likely have lower growth rates than HJ 2 due to the odd collection patterns of FY 2016. By the end of February, relative growth should be more in line with final FY 2017 expectations.

Year-to-Date Relative to Historical Collection Patterns

As the fiscal year progresses, the accruing data allows for a closer estimate of final collections based on historical collection patterns. Potential total general fund collections for FY 2017 are calculated using various year-to-date percentages—minimum, maximum, median and average—since FY 2002. The results are shown in the chart below. Based on collections through the end of January, the difference between the high and low amounts is about \$316 million, with the median value about \$22 million above the HJ 2 estimate.



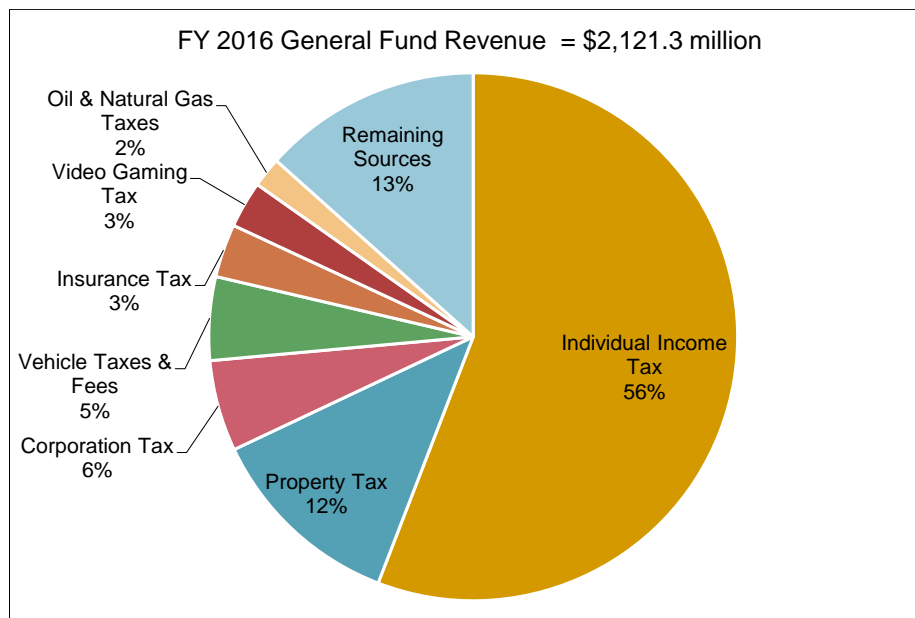
YEAR-TO-DATE GENERAL FUND REVENUE

FY 2017 general fund revenues through the end of January are \$9.1 million or 0.7% above FY 2016 revenues through the same period; this increase is below the HJ 2 estimated growth of 3.4%. All major revenue sources and any other sources with significant differences will be discussed in the next section.

General Fund Revenue Monitoring Report (\$ Millions)							
Revenue Source	Actual FY 2016	HJ 2 Est. FY 2017	HJ 2 Est. % Change	YTD FY 2016	YTD FY 2017	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	\$1,184.828	\$1,219.776	2.9%	\$799.926	\$806.224	\$6.298	0.8%
Property Tax	257.100	260.150	1.2%	140.799	135.607	(5.192)	-3.7%
Corporation Tax	118.387	140.308	18.5%	74.569	73.718	(0.851)	-1.1%
Vehicle Taxes & Fees	108.480	109.200	0.7%	54.848	54.359	(0.489)	-0.9%
Oil & Natural Gas Taxes	39.083	44.821	14.7%	11.260	10.932	(0.328)	-2.9%
Insurance Tax	69.255	71.102	2.7%	27.807	31.132	3.325	12.0%
Video Gaming Tax	60.554	62.522	3.3%	30.014	29.444	(0.570)	-1.9%
Other Business Taxes							
Drivers License Fee	4.345	4.539	4.5%	2.580	2.325	(0.255)	-9.9%
Investment Licenses	7.212	7.433	3.1%	6.473	6.576	0.103	1.6%
Lodging Facilities Sales Tax	21.493	22.978	6.9%	11.161	11.054	(0.107)	-1.0%
Public Contractor's Tax	2.397	2.510	4.7%	3.026	3.767	0.741	24.5%
Railroad Car Tax	3.594	3.437	-4.4%	3.110	4.235	1.125	36.2%
Rental Car Sales Tax	3.878	3.282	-15.4%	2.426	1.583	(0.843)	-34.7%
Retail Telecom Excise Tax	16.775	16.165	-3.6%	5.041	4.845	(0.196)	-3.9%
Other Natural Resource Taxes							
Coal Severance Tax	14.236	13.225	-7.1%	6.998	8.467	1.468	21.0%
Electrical Energy Tax	4.536	4.595	1.3%	1.766	1.892	0.126	7.1%
Metal Mines Tax	4.221	4.129	-2.2%	0.000	(0.103)	(0.103)	-219946.3%
U.S. Mineral Leasing	16.759	19.610	17.0%	11.249	8.021	(3.228)	-28.7%
Wholesale Energy Trans Tax	3.516	3.502	-0.4%	1.597	1.709	0.112	7.0%
Other Interest Earnings							
Coal Trust Interest Earnings	20.722	19.893	-4.0%	8.706	10.091	1.385	15.9%
TCA Interest Earnings	3.961	5.802	46.5%	1.587	2.578	0.991	62.4%
Other Consumption Taxes							
Beer Tax	3.027	3.029	0.0%	1.569	1.534	(0.035)	-2.2%
Cigarette Tax	31.103	30.980	-0.4%	17.659	17.002	(0.658)	-3.7%
Liquor Excise Tax	19.776	20.596	4.1%	10.324	10.780	0.456	4.4%
Liquor Profits	11.000	11.777	7.1%	-	-	-	-
Lottery Profits	11.963	11.549	-3.5%	2.417	3.267	0.850	35.2%
Tobacco Tax	6.184	6.329	2.4%	3.178	3.173	(0.005)	-0.2%
Wine Tax	2.373	2.412	1.6%	1.268	1.296	0.028	2.2%
Other Sources							
All Other Revenue	41.420	42.518	2.7%	19.925	18.921	(1.004)	-5.0%
Highway Patrol Fines	4.040	4.187	3.6%	1.946	1.957	0.011	0.6%
Nursing Facilities Fee	4.764	4.526	-5.0%	1.796	1.775	(0.021)	-1.2%
Public Institution Reimbursement	16.910	14.083	-16.7%	1.677	7.680	6.003	358.1%
Tobacco Settlement	3.394	3.371	-0.7%	-	0.010	0.010	-
Largest Seven Subtotal	1,837.687	1,907.880	3.8%	1,139.224	1,141.416	2.193	0.2%
Remaining Sources Subtotal	283.601	286.457	1.0%	127.481	134.434	6.952	5.5%
Grand Total	\$2,121.288	\$2,194.337	3.4%	\$1,266.705	\$1,275.850	\$9.145	0.7%

MAJOR SOURCES

In FY 2016, the largest seven revenue sources accounted for over 86% of total general fund revenue. This section will highlight current trends with each source and further revenue detail if applicable.



Individual Income Tax: Currently Below HJ 2 Due to Lower Estimated Payments

Individual income tax collections through the end of January are \$6.3 million or 0.8% above the year-to-date collections in FY 2016. The decline in estimated payments may reflect the lower CY 2015 capital gains income relative to CY 2014. After a processing timing issue in December, withholding appears to be back on track.

Individual Income Tax (\$ Millions)				
	YTD 2017	YTD 2016	\$ Difference	% Difference
Withholding	\$525.5	\$502.5	\$23.0	4.6%
Estimated Payments	169.4	179.9	(10.4)	-5.8%
Current Year Payments	19.9	26.4	(6.4)	-24.4%
Audit, P&I, Amended	18.6	24.2	(5.5)	-22.9%
Refunds	(79.9)	(84.0)	4.1	-4.8%
Refund Accrual Reversal	143.0	140.0	2.9	2.1%
Partnership Income Tax	6.1	6.5	(0.3)	-5.1%
Mineral Royalties	3.6	4.5	(0.9)	-20.8%
Total	\$806.2	\$799.9	\$6.3	0.8%

Property Tax: Low Due to Timing Issue

Property tax collections are below last year by \$5.2 million or 3.7%. This is still likely due to a lag in property tax bills, and subsequently, tax collections clearing out from last month when property tax was down 32%. This lag was caused by the need for adjustments from the NorthWestern Energy property tax settlement that lowered NorthWestern's market value from \$2.6 billion to \$2.4 billion. It is expected that property tax collections will continue to come more in line with HJ 2 expectations next month.

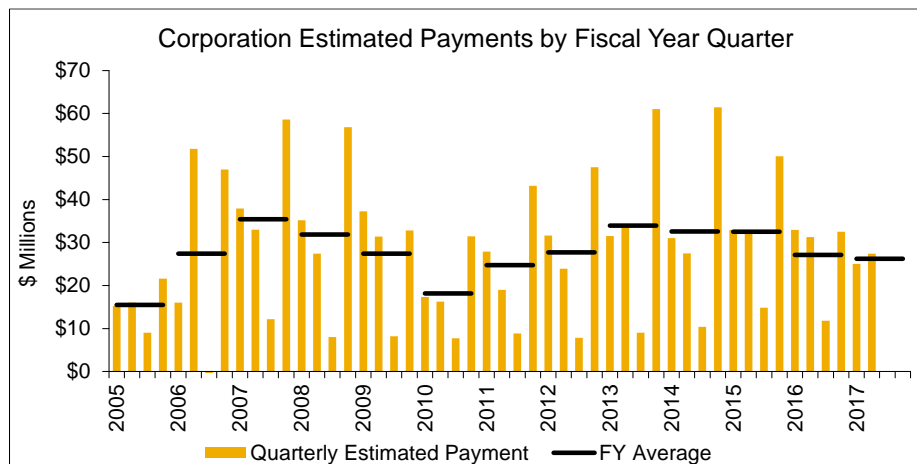
Corporation Income Tax: YTD Decline Driven by Lower Estimated Payments

Corporation income tax collections through the end of January are 1.1% or \$0.9 million below this time in FY 2016. Lower estimated payments in FY 2017 have been partially offset by higher audits and lower refunds as

shown in the table below. Estimated payments typically account for about 80% of total corporation income tax revenue.

Corporation Income Tax (\$ Millions)				
Account	YTD 2017	YTD 2016	\$ Difference	% Difference
Corporation Tax	\$10.7	\$9.9	\$0.9	8.7%
Estimated Payments	57.6	67.3	(9.7)	-14.5%
Refunds	(8.1)	(11.2)	3.2	-28.2%
Refund Accrual Reversal	3.8	4.3	(0.5)	-12.1%
Audit, P&I, Amended	9.7	4.3	5.4	123.5%
Total	\$73.7	\$74.6	(\$0.9)	-1.1%

The following chart shows that estimated payments in the first two quarters of FY 2017 are below the estimated payments collected in the first two quarters of FY 2016. However, the fourth quarter estimated payments in FY 2016 were significantly lower than any fourth-quarter collections since FY 2010. It is likely that FY 2017 fourth quarter payments will rebound from the FY 2016 low.

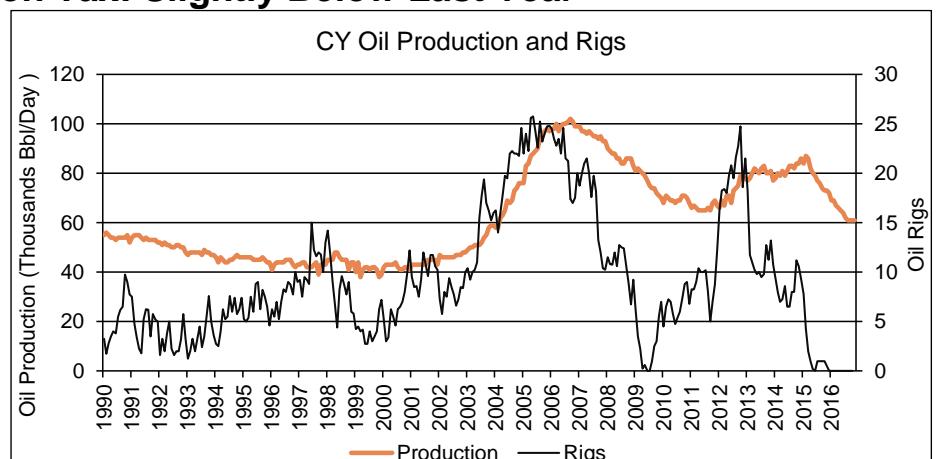


Vehicle Fees & Taxes: Slightly Below Estimate

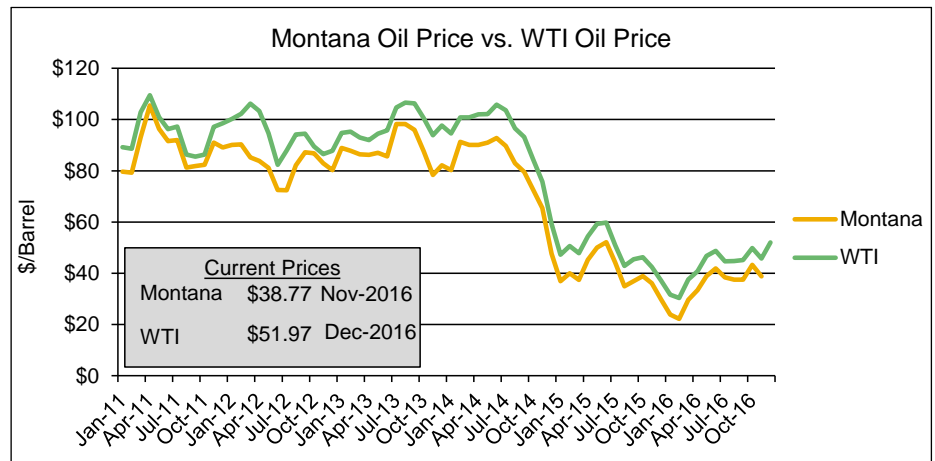
Six months into FY 2017, vehicle taxes and fees are 0.9% or \$0.5 million below collections last year at this time. In HJ 2, this source was expected to grow by 0.7%.

Oil & Natural Gas Production Tax: Slightly Below Last Year

Through January, oil and gas production taxes are 2.9% or \$0.3 million below last year's collections at this time. This was expected as prices during the first quarter of FY 2016 were higher than those in the first quarter of FY 2017. Moving forward, however, tax collections are expected to exceed FY 2016 collections as prices for the remainder of FY 2017 should be above those seen for the same period in FY 2016.



As the chart at the bottom of the previous page shows, oil production has been declining since the beginning of 2015, as there has been at most one rig operating in the state since early 2015. The adjacent figure shows Montana's historical oil price compared to West Texas Intermediate (WTI) oil price.



Insurance Tax: Increased Collections Due to Strong Growth & New Rules

Current insurance tax collections are 12.0% or \$3.3 million above FY 2016 through January. About half of the increase is from the premiums insurance account, in which collections are growing 5.5% over FY 2016 through January. The other half of the increase is due to two large monthly collections in the fire marshal taxes account that are a result of changes in State Auditor's Office rules. There should be about \$2.2 million of additional fire marshal tax in FY 2017, with a portion of the increase likely to be ongoing new revenue.

Video Gaming Tax: Below Estimate

Revenue from video gambling is currently \$0.6 million or 1.9% below collections from last year.

OTHER KEY DIFFERENCES:

Railroad Car Tax: Strong Growth Due to Updated Taxpayer Data

Railroad car tax is \$1.1 million or 36.2% above collections last year. The increase was caused by several large railroad car taxpayers that had not reported by the time the original estimate data was gathered, but have since been added to the tax reports.

Coal Severance Tax: Strong Growth Due to Large Audit

Coal severance tax revenue is \$1.5 million or 21.0% above year-to-date collections in FY 2016. Large audit collections are responsible for the year-over-year increase, as total collections excluding the audit are slightly below last year.

U.S. Mineral Royalties: Below Estimate, Due to Timing and Lower Coal Production

U.S. mineral royalties are down 28.7% or \$3.2 million compared to FY 2016 levels at this time. Mineral royalty payments can be sporadic, so there may be a timing issue. In addition, decreased coal production on federal land in Montana has contributed to the year-over-year decrease.

Coal Trust Interest Earnings: Above Estimate

To date, coal trust interest earnings are \$1.4 million or 15.9% above collections from one year ago. This year-over-year increase is due to timing.

All Other Revenue: Below Estimate Due to Accounting

To date, all other revenue collections are 5.0% or \$1.0 million below last year's collections. The year-to-date decrease is due to this account being used to hold a portion of corporation income tax (\$3.6 million) during

the month of January last year. This amount was booked to the appropriate account in February of last year, so next month's update should show year-over-year growth.

Public Institution Reimbursements: Strong Growth Primarily Due to Volatility

Public institution reimbursements are currently 358.1% or \$6.0 million above last fiscal year; however, collections in FY 2016 were unusually low, so year-over-year comparisons appear particularly high. This source is impacted by [SB 411 \(2015 Session\)](#) with the magnitude of the effect dependent upon the speed at which the closure of MDC moves forward. In addition, changes to facilities at the state hospital have made some services eligible for Medicaid and potentially Medicare, which is consistent with the elevated revenue from Warm Springs.